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PAGE:0958

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INQUIRE=DOC15D
ITEM NO=00269040

ENVELOPE

CDSN = LGX674 MCN = 91221/16235 TOR = 912211119
RTTCZYUW RUEKJCS6832 2211119-CCCC--RUEALGX.
ZNY CCCCC

HEADER

R 091119Z AUG 91
FM JOINT STAFF WASHINGTON DC
INFO RUEADWD/OCSA WASHINGTON DC
RUENAAA/CNO WASHINGTON DC
RUEAHQA/CSAF WASHINGTON DC
RUEADWD/PTC WASH DC
RUSNNOA/USCINCEUR VAIHINGEN GE
RUFGAID/USEUCOM AIDES VAIHINGEN GE
RUCQVAB/USCINCSOC INTEL OPS CEN MACDILL AFB FL
RUEOACC/CDRPSYOP GP FT BRAGG NC//ASOF-POG-SB//
RHDLCNE/CINCUSNAVEUR LONDON UK//N2/N24//
RHCGRB/COMUSARCENT FT MCPHERSON GA//AFRD-DSO//
RUCJACC/USCINCCENT MACDILL AFB FL//CARA//
RUEALGX/SAFE

R 091106Z AUG 91
FM AMEMBASSY NEW DELHI
TO RUEHC/SECSTATE WASHDC 7239
INFO RUEATRS/DEPTTREAS WASHDC
RUFHAD/AMEMBASSY ABU DHABI 1624
RUFHKA/AMEMBASSY DHAKA 3828
RUEHIL/AMEMBASSY ISLAMABAD 6574
RUFHKT/AMEMBASSY KATHMANDU 4455
RUFHCM/AMEMBASSY COLOMBO 3511
RUFHLD/AMEMBASSY LONDON 4074
RUSBBY/AMCONSUL BOMBAY 4134
RUSBTA/AMCONSUL CALCUTTA 6922
RUSBMA/AMCONSUL MADRAS 4707

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LIMITED OFFICIAL USE SECTION 01 OF 02 NEW DELHI 16832

STATE FOR NEA/INS AND L - J. OSBORN

E.O. 12356: N/A

/***** THIS IS A COMBINED MESSAGE *****/

BODY

TAGS: EFIN, PREL, IN
SUBJECT: GOI FINANCE MINISTER'S STATEMENT ON BCCI

REF: NEW DELHI 16349 (NOTAL)

DEPARTMENT OF STATE

☒ RELEASE ☐ DECLASSIFY
☐ EXCISE ☐ DECLASSIFY
☐ DENY IN PART
☐ DELETE Non-Responsive Info
FOIA Exemptions _____
PA Exemptions _____

IS/FPC/CDR

MR Case Only:
EO Citations _____

DRP Date. 9/8/94

TS authority
☐ CLASSIFY as ☐ S or ☐ C OAL
☐ DOWNGRADE TS to ☐ S or ☐ C OAL

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PAGE:0959

1. SUMMARY. IN RESPONSE TO PARLIAMENTARY REQUESTS, GOI FINANCE MINISTER MANMOHAN SINGH MADE AN OFFICIAL STATEMENT AUGUST 7 ON THE BCCI AFFAIR. SINGH SAID THE BCCI BRANCH IN BOMBAY SUSPENDED OPERATIONS IN JULY, BUT ITS ASSETS EXCEEDED LIABILITIES AND DEPOSITORS WERE BEING PROTECTED. SINGH'S BLAND REMARKS NOTED THAT BASED ON THE INFORMATION AVAILABLE TO THE GOVERNMENT, THERE WAS NO INDICATION OF "SPECIFIC INSTANCES" OR DEFINITE INFORMATION OF WRONGDOING. APART FROM IRREGULAR FOREIGN EXCHANGE TRANSACTIONS IN 1986, THE GOI HAD NO COMPLAINT AGAINST BCCI OPERATIONS AND THERE WAS NOTHING TO SUBSTANTIATE ALLEGATIONS OF INDIAN POLITICIANS, BUREAUCRATS, OR TERRORISTS MAKING USE OF BCCI FOR ILLEGAL FUNDING. OPPOSITION POLITICIANS ALLEGE A WHITEWASH AND SOME ACCUSE THE GOI OF NOT WANTING TO INVESTIGATE POSSIBLE LINKS BETWEEN BCCI AND FORMER RAJIV GANDHI ASSOCIATES. PRESS COMMENTATORS WARN OF A POSSIBLE NEW BOFORS CASE IF THE GOI IS NOT MORE FRANK AND TRANSPARENT IN ITS DISCLOSURES. END SUMMARY.

2. ON AUGUST 7, GOI FINANCE MINISTER MANMOHAN SINGH MADE A STATEMENT TO PARLIAMENT THAT THE GOI HAD NO INFORMATION TO SUBSTANTIATE ALLEGATIONS THAT INDIAN POLITICIANS, BUREAUCRATS, AND/OR TERRORIST ORGANIZATIONS RECEIVED MONEY FROM THE BOMBAY BRANCH OF BCCI. MANMOHAN SINGH SAID THAT ACCORDING TO RESERVE BANK OF INDIA AND INTELLIGENCE AGENCY INFORMATION, THERE WAS NO INDICATION OF "SPECIFIC INSTANCES" OR ANY DEFINITE INFORMATION OF WRONGDOING. THE FINANCE MINISTER TURNED DOWN A REQUEST IN THE UPPER HOUSE FOR A JOINT PARLIAMENTARY COMMITTEE PROBE INTO BCCI ON THE GROUNDS THAT THIS COULD DAMAGE INDIA'S RELATIONS WITH ABU DHABI AND OTHER FRIENDLY ARAB NATIONS. (A TEAM FROM THE EMIRATES BANK INTERNATIONAL LIMITED AND NON-RESIDENT INDIANS ARE REPORTEDLY EXAMINING ACQUISITION OF THE BCCI BRANCH IN BOMBAY).

3. SINGH'S STATEMENT MAINLY INVOLVED THE BACKGROUND TO THE ESTABLISHMENT OF THE BCCI BOMBAY BRANCH. THE BANK WAS PERMITTED TO OPEN A REPRESENTATIVE OFFICE IN 1977, AND IN FEBRUARY 1983 THE RBI LICENSED IT TO OPEN A BRANCH OFFICE IN BOMBAY. (SHEIK ZAYED OF ABU DHABI REPORTEDLY PERSONALLY INTERVENED WITH INDIRA GANDHI ON BEHALF OF BCCI). IN 1986 THE FINANCE MINISTRY'S ENFORCEMENT DIRECTORATE DISCOVERED THAT BCCI WAS RELEASING FOREIGN EXCHANGE TO TRAVEL AGENTS FOR ALLEGED FOREIGN TRAVEL BY CUSTOMERS, WITHOUT VERIFYING THE SIGNATURES OF THE ACTUAL TRAVELLERS. THE GOI RAIDED BCCI, AND SEIZED CURRENCY OF USD 132,000 AND RS. 1,700,057; FOUR BCCI EMPLOYEES WERE TEMPORARILY DETAINED UNDER THE FOREIGN EXCHANGE CONTROL ACT. HOWEVER, THE GOI DID NOT DISCOVER EVIDENCE WHICH WOULD HAVE WARRANTED REVOKING BCCI'S LICENSE. IN 1988,

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PAGE:0960

THE GOI RECEIVED REPORTS THAT BCCI WAS ATTEMPTING TO PURCHASE REAL ESTATE IN BOMBAY AND LUCKNOW, BUT THIS WAS NOT CORROBORATED. THERE WAS NO INDICATION OF MORE SERIOUS FINANCIAL MANIPULATION.

4. ACCORDING TO THE FINANCE MINISTER, THE FIRST KNOWLEDGE THAT THE GOI HAD OF BCCI'S COLLAPSE CAME FROM NOTIFICATION BY THE BANK OF ENGLAND ON JULY 5 THAT BCCI INTERNATIONAL WAS BEING PLACED IN RECEIVERSHIP. ON JULY 6, THE RESERVE BANK OF INDIA ORDERED THE BCCI BRANCH IN BOMBAY TO SUSPEND ITS OPERATIONS. SIMULTANEOUSLY, THE RBI APPOINTED TWO OF ITS OFFICERS AS OBSERVERS TO ENSURE THE INTERESTS OF DEPOSITORS AND CREDITORS WERE PROTECTED. THE RBI ISSUED A PRESS STATEMENT THAT THE TOTAL ASSETS OF THE BOMBAY BRANCH WERE GREATER THAN THE LIABILITIES AND DEPOSITORS WERE BEING PROTECTED. ON JULY 15, THE RBI REQUESTED THE BOMBAY HIGH COURT TO LIQUIDATE THE LOCAL OFFICE OF BCCI UNDER THE BANKING REGULATIONS ACT OF 1949 AND THE COURT ORDERED THE STATE BANK OF INDIA TO BE THE PROVISIONAL LIQUIDATOR.

/***** BEGINNING OF SECTION 002 *****/

5. SINGH'S DENIAL CAUSED AN UPROAR IN THE LOK SABHA, WITH MANY MEMBERS OF THE OPPOSITION WALKING OUT. JANATA DAL LEADER GEORGE FERNANDES DESCRIBED THE REPORT AS "TRASH", AND CLAIMED TO HAVE INFORMATION TO "BLOW UP" THE GOVERNMENT. SUBSEQUENTLY, FORMER PRIME MINISTER V.P. SINGH SAID THERE WAS "SOMETHING FISHY" ABOUT THE BCCI, WHICH WAS WHY HIS GOVERNMENT TURNED DOWN THE BCCI REQUEST TO OPEN A BRANCH IN DELHI, AND V.P. SINGH SAID THE GOI MUST ORDER AN INVESTIGATION OF POSSIBLE BCCI MONEY LAUNDERING ACTIVITIES. BJP MEMBERS OF PARLIAMENT DEMANDED THAT THE GOI DISCLOSE THE NAMES OF ALL INDIAN POLITICAL LEADERS WHO HAD ACCOUNTS WITH BCCI. THERE WERE ALLEGATIONS THAT THE NATIONALIZED SYNDICATE BANK HAD LOST USD 100 MILLION AFTER BCCI WAS CLOSED DOWN, THUS WIPING OUT THE SAVINGS OF INNOCENT KERALITES LIVING IN THE GULF COUNTRIES.

6. THE FINANCE MINISTER DID NOT ADDRESS CHARGES BY THE U.S. PRIVATE INVESTIGATOR MICHAEL HERSHMAN, WIDELY REPORTED IN INDIA, TO THE EFFECT THAT INDIAN GOVERNMENT OFFICIALS AND BUSINESSMEN USED THE BOMBAY BCCI BRANCH TO TRANSFER MILLIONS OF DOLLARS TO THE U.S., BRITAIN, AND THE CAYMAN ISLANDS. HERSHMAN ALLEGED THAT SENIOR INDIAN GOVERNMENT OFFICIALS SUPPRESSED FURTHER INVESTIGATION EVEN THOUGH GOI FINANCE MINISTRY OFFICIAL BHURE LAL HAD GONE TO THE U.S. IN 1987 FOR DISCUSSIONS ON THE BANK. SOME OF RAJIV GANDHI'S ASSOCIATES WERE SUSPECTED OF BEING INVOLVED IN THE SCANDAL. THE "INDIAN EXPRESS" ALLEGES THAT BCCI MAY HAVE BEEN INVOLVED IN PURCHASES OF RELIANCE (AMBANI)

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PAGE:0961

SECURITIES BY HITHERTO UNKNOWN NON-RESIDENT INDIAN COMPANIES IN 1982, AND THAT RELIANCE RESOLD THOSE SHARES TO LARSEN AND TOUBRO IN 1989 AFTER L & T HAD BEEN LARGELY TAKEN OVER BY RELIANCE.

7. COMMENT. THE BCCI AFFAIR HAS HEIGHTENED THE INDIANS' SENSITIVITY TO THE CONNECTION BETWEEN OFFSHORE BANKING AND FINANCING ILLEGAL OR CRIMINAL ACTIVITIES. AS THE PRESS POINTED OUT, THE BLAND GOI STATEMENT DID NOT GO FAR ENOUGH IN EXAMINING HOW BCCI MIGHT HAVE OPERATED IN INDIA. WHILE INDIA'S HIGHLY REGULATED FOREIGN EXCHANGE REGIME WOULD HAVE INHIBITED BCCI FAR MORE THAN THE DEREGULATED ATMOSPHERE OF OFFSHORE BANKING, THERE MAY HAVE BEEN SOME OPENINGS THROUGH INTERNATIONAL ELECTRONIC BANKING, AND INDIVIDUAL INDIAN CITIZENS HAD PLENTY OF OPPORTUNITY TO GET INVOLVED THROUGH BCCI BRANCHES OUTSIDE OF INDIA.

8. THE GOI IS ALSO VULNERABLE TO ALLEGATIONS OF A WHITEWASH BECAUSE THE NARASIMHA RAO GOVERNMENT MAY SEEK TO AVOID TOO EXPLICIT A LINK BETWEEN BCCI AND RAJIV GANDHI'S ASSOCIATES. WE EXPECT THE GOI TO BE UNDER INCREASED PRESSURE TO HAVE A MORE TRANSPARENT INVESTIGATION IN ORDER TO AVOID THE DEVELOPMENT OF ANOTHER BOFORS CASE.

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ADMIN
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